

P 201626Z FEB 09
FM AMEMBASSY BERLIN
TO SECSTATE WASHDC PRIORITY 3368
INFO EU MEMBER STATES COLLECTIVE PRIORITY
DEPT OF TREASURY WASHINGTON DC PRIORITY
NSC WASHINGTON DC PRIORITY
USEU BRUSSELS PRIORITY

C O N F I D E N T I A L BERLIN 000215

PLEASE PASS TO CHODGES, PSCHROEDER AT EUR/CE; MCULLINANE,
GHICKS AT EEB/OIA; LKOHLE AT TREASURY; JLEVINE AT
COMMERCE; DWEINER, JSANFORD AT USTR

E.O. 12958: DECL: 02/19/2019

TAGS: [ETRD](#) [PREL](#) [GM](#)

SUBJECT: (C) GERMANS WARN THAT BUY AMERICA COULD PROMPT
RETALIATION

Classified By: Minister-Counselor for Economic Affairs Robert A. Pollard
for reasons 1.4 (a) and (d)

¶1. (C) Summary: Embassy officials have encountered strong official reactions, public outcry and unfavorable press on Buy America provisions in the U.S. stimulus package. Germans are widely concerned about their impact on an already troubled export-oriented economy. Embassy representatives reiterated the USG's commitment to open markets to officials at the Chancellery and the German Ministry of Economics and assessed the impact of the provisions on German industry. Chancellery officials noted that Chancellor Angela Merkel had raised Buy America provisions with President Obama, and that the Chancellor could accept them as long as the United States honored its World Trade Organization (WTO) obligations. However, the Economics Ministry's top steel expert warned that even if such provisions do not reduce German exports, he foresaw strong political pressure in Germany and elsewhere in Europe to retaliate with protectionist responses. End summary.

CHANCELLOR'S STANCE

¶2. (C) On February 5, Chancellor Merkel applauded the Senate's move to "dilute" the Buy American provisions in the U.S. stimulus package and called it "a good and important signal." "Despite today's troubled state of the global economy, all countries have a duty to resist protectionist tendencies," she said. In a meeting on February 10, Helgo Hassold, a trade adviser at the Federal Chancellery, told Econ Counselor that Chancellor Merkel had discussed the Buy America provisions with President Obama in a telephone call. Hassold indicated that the Chancellor was primarily concerned that the United States meet its WTO obligations. Hassold, however, sought clarification on whether the WTO's Government Procurement Agreement (GPA) applied to infrastructure projects at the state as well as federal level in the United States. In a February 20 meeting, Horst Classen, the Chancellery's Deputy Director General for International Economic issues, told EMIN that Merkel also will raise the danger of protectionism at the February 22 G20 preparation summit that she is hosting for European members.

INDUSTRY IN CRISIS

¶3. (C) In a separate meeting on February 10, the Ministry of Economics' top steel expert, Dr. Dirk Grabowski, said the Buy America provisions drew close attention from the highest levels of the Ministry. Grabowski said that former Economics Minister Michael Glos had reacted strongly to a briefing memo on the provisions and underlined several passages. In turn, State Secretary Jochen Homann pointedly wrote on the memo that President Obama did not support the House version of the measures, according to Grabowski.

¶4. (C) German officials said they are relieved by both President Obama's commitment to avoid a "trade war" and the USG's pledge to comply with WTO and other international commitments. Grabowski said the worst possible outcome of any USG trade policy review would be a rejection of prior WTO commitments such as the GPA resulting in the blocking of German steel products. Ministry officials said Germany's steel industry is currently facing its worst conditions in 30 years, exacerbated by a slump in the auto industry. Any drop in exports to the United States would hit the industry much harder today than even 12 months ago, when the German economy was still booming. German officials predicted that even with guarantees to abide by the GPA, Buy America provisions would be disastrous for the German steel industry. They argued that non-signatories such as China would begin exporting larger quantities of low-quality steel to the EU to compensate for reduced sales in the United States. They expressed further concern that the provisions would prompt other countries to enact similar measures, leading to a downward spiral in trade.

¶5. (C) Representatives of the Economics Ministry and industry are uncertain about the law's direct impact on the German steel industry. They raised concerns, however, about whether steel manufactured at Thyssen-Krupp's planned multibillion dollar plant in Alabama would meet the legal definition of an American product. One of the largest foreign direct investments in the United States in years, the plant will rely on semi-processed materials from Brazil, where the project is already facing financial difficulties due to extraordinary cost overruns.

PRESSURE TO RETALIATE

¶6. (C) In spite of the USG's pledge to adhere to WTO obligations, Grabowski was concerned that Germany could consider countermeasures and that Germany's industry and public would regard the United States as the "Bsewicht" (villain). German officials pointed out repeatedly that Germany's stimulus package also includes significant infrastructure projects but with no preferences for German products. Similarly, they maintained that Germany's recently enacted cash incentives for replacing older vehicles are primarily benefiting foreign automakers, including General Motors' Opel division in Germany.

COMMENT

¶7. (C) The Chancellery's tone is encouraging, but the Buy America issue has raised major concerns in Germany about the U.S. commitment to free trade. Exacerbating the problem are fundamental misunderstandings about the Buy America legislation, e.g. the fact that it has long been on the books and that the GPA allows exceptions for (U.S.) state infrastructure projects. Given past conflicts over steel and the worsening economic climate, post plans robust advocacy and outreach to quell concerns that the United States is moving in a protectionist direction.

Koenig